M A N I T O B A	)	**Order No. 173/07**
	)	
THE PUBLIC UTILITIES BOARD ACT	)	**December 31, 2007**

BEFORE: Graham F. J. Lane, CA, Chairman
Len Evans, LLD, Member
Monica Girouard, CGA, Member

SWAN VALLEY GAS CORPORATION –
INTERIM RATES LOUISIANA PACIFIC CANADA

Introduction

By this Order, the Public Utilities Board (Board) approves interim rates effective December 23, 2007 to be charged Louisiana Pacific Canada Ltd. (LP). The new rates will be subject to a final determination at a later date.

Application

On December 20, 2007, Swan Valley Gas Corporation (SVGC) filed a commodity and delivery rate application with the Board seeking approval of the terms and conditions of a Commercial Agreement between SVGC and LP (Agreement), to be effective on an interim basis from December 23, 2007.

The Board considered the application *ex parte* after concluding that it was in the public interest and the interest of SVGC’s other customers to implement SVGC’s revised Agreement with LP on a timely basis. The Board regularly provides oversight of SVGC’s operations on a least cost regulatory model.

Background

SVGC is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan Crown Corporation. By Board Order 93/00, SVGC’s acquisition of natural gas distribution franchise rights for the Swan Valley region of Manitoba was approved.

SVGC’s natural gas supply is transported to Manitoba through a pipeline owned by Many Islands Pipe Lines (Canada) Limited (MIPL), also a subsidiary of SaskEnergy. MIPL is a federally regulated company which owns a transmission pipeline between Norquay, Saskatchewan and Benito, Manitoba (the TransGas Limited pipeline system does not extend to the Saskatchewan-Manitoba border). The MIPL pipeline is dedicated to SVGC, and transports gas intended for its customers, including LP (an oriented-strand-board manufacturer). SVGC’s transmission pipeline connects to the MIPL pipeline at Benito, and transports the natural gas to Swan River and Minitonas.

LP is SVGC’s anchor customer, and approximately 80% of the throughput of the MIPL pipeline flows to LP. And, LP is SVGC’s largest customer. LP and SVGC depend upon each other with respect to their business operations. LP and SVGC have indicated an intention to enter into a new service contract, the contract await signatures from LP following Board approval of the rate change.

SVGC advises that upon filing the executed Agreement it will then seek final approval of the revised rates. SVGC noted that the Agreement provides terms that are substantially the same as the previous agreement, excepting for:

1. The agreement will be effective on December 23, 2007, and shall continue in effect until December 31, 2008, with LP having an option to extend the term for an

additional year, the option to be exercised at the time of execution of the Agreement.

2. In the event that LP does not extend the new Agreement to December 31, 2009, the yearly payments established for 2008 shall be the interim rates for 2009, until terms and conditions of a new commercial agreement are determined.
3. The Basic Monthly Charge for Delivery Service as of December 23, 2007 will be $58,363.25, a decrease from $59,580.00 – representing total annual savings of $14,601. The savings to LP are the result of lower operating, maintenance and administrative costs for Many Islands Pipelines (Canada) Limited.
4. The Agreement has a minimal financial impact on the other SVGC customers; no changes to the delivery rates for the remaining rate classes are anticipated for 2008.
5. All references to SVGC being obliged to obtain LP’s support for a Marketing Plan (a feature of the prior agreement) have been deleted, at the request of LP. SVGC will continue with marketing efforts to grow the SVGC system.

LP’s rate was initially set when operations began in 2000, and was then established with the expectation of much higher customer numbers and volumes than has proven to be the case.

Through its rates, SVGC recovers from its customers the cost of providing both natural gas commodity and the delivery service. Commodity costs include the cost of gas purchased and transportation costs to deliver natural gas to SVGC at the Saskatchewan-Manitoba border. SVGC recovers the delivery cost of transporting the gas from the Saskatchewan border to the customer's meter via its delivery rates. Delivery costs are recovered from its customers through two components: a Basic Monthly Charge and a Delivery Charge applied to each unit of gas consumed.

Board Findings

In considering SVGC's request for an interim Order, the Board noted that the Utility has been, with the approval of the Board, regulated on a least cost regulatory model since its inception. The regulatory model recognizes SVGC's small customer base and consequent need for regulatory cost efficacy; regulatory costs are a factor in the determination of customer rates.

The changes in SVGC's contract with LP, will further assurance of the financial viability of SVGC. The savings to LP arising out of the December 23, 2007 amendments result from lower operating, maintenance and administrative costs at MIPL, and are not expected to impact on SVGC's financial position.

The Board notes that the contract amendments, the Agreement, between LP and SVGC will have minimal financial impact on the remaining SVGC customers and not cause any changes to the delivery rates.

Homeowners, businesses and public institutions have invested in gas heating, and LP’s Agreement with SVGC assists SVGC in providing reasonably priced service to these other customers. LP depends on natural gas for its manufacturing operations, and is a significant local employer.

SVGC reserves a capacity with TransGas and pays on the basis of volume reserved. LP is charged for its share. LP, elected to increase its share of the SVGC contract demand for the TransGas transportation agreement from 1,461 GJ per day, to 18341 GJ per day at no additional cost. The annual costs to LP are $67,146.

The sum of the three components under the revised Agreement totals $700,359, which results in 12 equal monthly payments by LP of $58,363.25, as reflected in the Agreement.

The contract reflects the financial arrangements required by SVGC and provides the operating flexibility sought by LP. The Agreement provides capability for LP to expand the use of natural gas, thus providing potential for increased production with additional benefits to the community.

The Board welcomes the cooperative effort on the part of SVGC and LP. The Board is of the opinion that it is in the best interests of SVGC, LP and the other customers for the

Agreement between LP and SVGC be put into effect at this time.

For all of the aforementioned reasons the Board finds that the circumstances giving rise to SVGC request for an interim ex parte order are reasonable, meriting the Board granting the interim ex parte Order

IT IS THEREFORE ORDERED THAT:

1. The terms and conditions of a proposed Commercial Agreement between Swan Valley Gas Corporation and Louisiana Pacific Canada Ltd., effective as of December 23, 2007, including the identified share of revenue requirement for SVGC, as more particularly described in the Agreement, and in Schedule A-1 of the Agreement, BE AND ARE HEREBY APPROVED on an interim basis until such time as the Board issues a final order in this matter.

2. The rates for Louisiana Pacific Canada Ltd. attached hereto as Schedule “A”, BE AND ARE HERBY APPROVED.

THE PUBLIC UTILITIES BOARD

“GRAHAM LANE, CA”
Chairman

“H. M. SINGH”
Acting Secretary

Certified a true copy of Order No. 173/07 issued by The Public Utilities Board

Acting Secretary